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In This Issue

Labor Shortages Bring Hiring
Difficulties for Small
Firms1

Message from the Chief Counsel

As a New Decade Begins, A Look
at Where Small Business
Is Going3

Regulatory Agencies

OSHA Administrator Featured at
Advocacy Roundtable4

Update: Comment Deadline on
OSHA's Ergonomics Proposal
Extended to March 24

EPA's Proposals for Regulating
Emissions by Aluminum
Casters Are Shelved6

Economic News

New BITS of Data Help
Researchers Track Firm
Dynamics7

New Briefs

Effects of Bank Mergers on Small
Business Lending Examined
at SEC Forum5

Labor Shortages Bring Hiring Difficulties for Small Firms

Today's small businesses rank labor shortages above taxes and government regulations as their heaviest burden, according to a recent study completed for the SBA's Office of Advocacy, *Labor Shortages, Needs and Related Issues in Small and Large Businesses*. About half of small firms examined were looking to hire someone, and over 60 percent that were looking to hire workers encountered some sort of hiring difficulty, said the report's researchers, Joel Popkin and Co.

The SBA's chief counsel for advocacy, Jere W. Glover, announced the findings of the study on Dec. 1 at the Office of Advocacy's

"Vision 2000" conference held at the U.S. Chamber of Commerce in Washington, D.C.

"Historically, a low unemployment rate has resulted in a labor shortage," said Glover. "Large firms can compensate for the shortage by setting up training programs to provide necessary skill levels or by supplying higher wages and better benefits. Small firms are now forced to do the same; however, most small firms cannot afford these extra training and employment costs. Thus they may have to slow their output growth."

The study documents the extent of the labor shortage for small busi-
Continued on page 2

Advocacy Panel Brings Small Business Views to OSHA



Some 90 small business representatives came to Washington on January 10 to attend a regulatory roundtable convened by the Office of Advocacy that featured OSHA Administrator Charles N. Jeffress and the SBA's Chief Counsel for Advocacy Jere W. Glover. For more on the meeting, turn to page 5 of this issue.

Labor Shortages, from page 1

nesses, its impact, and how small businesses are coping. It reveals that over 70 percent of small firms experiencing hiring difficulties were seeking someone with only a high school diploma, and at least 70 percent were seeking someone with 1 to 2 years of experience. A little more than a third of firms that had problems hiring sought an employee with computer proficiency skills, and only about a third were seeking someone with a bachelor's degree or higher education. However, about half of the firms looking to hire someone employed an individual less qualified than they had originally sought.

The labor shortage has broad implications for the economy at large. Slightly more than half of the firms surveyed in the study that had hiring difficulties raised the wages they were originally offering, and about a quarter raised benefits to solve hiring problems. If small firms continue to raise wages without generating increases in productivity, small firms' profits will decline or price increases will be attempted. In addition, if small businesses are constrained by the lack of labor available, their output growth could slow or stagnate, thereby slowing the overall growth of the U.S. economy.

Labor Shortages, Needs and Related Issues in Small and Large Businesses examines one possible solution to the labor shortage — so-called "contingent workers." Examples of contingent workers are persons hired from temporary employment agencies or individuals hired as independent contractors. According to the study, contingent workers comprise about 5 percent of the work force. Large firms are more likely to hire contingent workers. Small firms, however, are significant users of these workers: they account for the employment of over 40 percent of the contingent work force.

The Office of Advocacy's "Vision 2000" conference was designed to showcase outstanding state and local initiatives that advance small business programs and policies. Glover announced the study's findings at the conference in order to bring the labor shortage issue to the attention of the state policymakers, state and local small business program directors, non-profit service providers, small business owners, and small business trade association executives who were attending the event.

"I am releasing this study today because the participants at this 'state and small business' conference are the ideal group to help alleviate this hiring concern. Local initiatives can address training, education, and other issues to better prepare workers for employment," said Glover.

For More Information

Copies of *Labor Shortages, Needs and Related Issues in Small and Large Businesses* are available for purchase from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161; tel. (703) 605-6000. Ask for publication no. PB2000-101373. The NTIS Web site is www.ntis.gov.

The text of the study is also available on the Office of Advocacy's Web site at www.sba.gov/advo/.

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Message from the Chief Counsel

As a New Decade Begins, A Look at Where Small Business Is Going

by Jere W. Glover

In preparation for the 1995 White House Conference on Small Business, the Office of Advocacy convened a series of focus groups and commissioned a set of research papers looking ahead at the trends and issues expected to affect small business at the turn of the new century. The results were subsequently published in 1995 as *The Third Millennium: Small Business and Entrepreneurship in the 21st Century*.

With five more years of history to add to our data, we thought it was time to take another look and see whether our expectations were right. So the Office of Advocacy convened several more focus groups — of former 1995 White House Conference delegates, small business leaders, and futurists — and gathered the available new data. The results have now been published in an all-new, 2000 edition of *The Third Millennium*.

I'm pleased to report that many of our predictions have been right on target. Some events — for example, technological developments and related phenomena (such as the connectivity fostered by the Internet) — are occurring even faster than expected. Other trends continue at a slightly slower pace than earlier predictions suggested.

The dynamic U.S. economy is reflected in its small business sector. Small firms continually start up, expand, and close. This phenomenon allows new ideas and processes to flourish, while unproductive ideas and processes disappear.

Starting small has several advantages: a minimum amount of capital is required, and entrepreneurs have the opportunity to learn — and

The technological, demographic, and economic trends that will affect small business over the coming years are detailed in an all-new edition of "The Third Millennium."

innovate — while the stakes are relatively small. One of the great strengths of the American economy is the protection afforded businesses under our bankruptcy laws. The laws allow creative entrepreneurs to try and try again, learning from past mistakes. The economic renewal that results from this process of experimenting, making mistakes, and being able to start over with a better idea makes the U.S. economy the envy of today's world.

As entrepreneurs take advantage of new opportunities and new firms replace those that close, the net number of new small businesses will continue to grow, slowly but steadily. A few of these small businesses will become the mega-firms of the 21st century. Others will remain small, providing initial employment and training for a large share of the American work force. Because a relatively constant share of small businesses grow to be large, the small business share of employment and of the economy will not change much over time.

What is likely to change is how small businesses operate, what new industries they create and which industries disappear. Technology and population changes will be driving forces. The aging of the U.S. population means that companies

will need to adjust to the changing makeup of their labor forces. Growing connectivity among all parts of an increasingly global economy will have long-term effects.

So, as the third millennium begins, this latest report from the Office of Advocacy presents a picture of small business challenges over the next decade. It is my hope that this information will help you and other small business owners, advocates, and policymakers prepare for the many challenges just ahead.

I welcome your comments, questions, and (as always) your efforts on behalf of small business. If you'd like to know more, visit the Office of Advocacy's Web site at www.sba.gov/advo/stats, or call us at (202) 205-6533.

To Obtain a Copy

Copies of the 2000 edition of *The Third Millennium* are available from the Office of Advocacy's Web site at www.sba.gov/advo/.

Paper copies of the report are available for purchase from the National Technical Information Service (NTIS) at (703) 605-6000. Ask for publication no. PB2000-102454.

Regulatory Agencies

OSHA Hears from Small Business; Deadline Extended for Ergonomics Comments

On January 10, the Office of Advocacy convened a roundtable featuring the administrator of the Occupational Safety and Health Administration, Charles N. Jeffress. Over 90 participants representing small business owners, trade associations, and the Congress participated in the two-hour meeting, held at SBA headquarters in Washington, D.C. (See sidebar on page 5 for a listing of organizations represented at the roundtable.)

The Office of Advocacy regularly convenes such roundtables with small businesses and their trade association representatives to better

serve the interests of small business.

In a related development, Secretary of Labor Alexis Herman announced on Jan. 27 that OSHA would be extending for 30 days the public comment period on its proposed ergonomics standard. Written comments on the proposed rule — originally published in the *Federal Register* this past Nov. 23 (at 64 FR 65768) — are now due by March 2. It is important for small entities to take advantage of this extension since it will be their last opportunity to comment unless they previously filed a notice of intent to appear at one of the public hearings

scheduled for later this year.

The ergonomics standard proposed by OSHA would require employers in manufacturing industries to implement ergonomics programs in their workplaces. (See story in the Autumn 1999 issue of *The Small Business Advocate*.)

Hearings on the proposed standard are due to be held this spring in Washington, D.C., Chicago, Ill., and Portland, Ore. For more information, visit OSHA's Web site at www.osha.gov.

Chief Counsel: "Role of Trades Vital"

In an recent interview with *Association Management* magazine (published in its November 1999 issue), the SBA's Chief Counsel for Advocacy Jere W. Glover commented that working with small business groups is an important part of the Office of Advocacy's goals. "Another key mandate for the Office of Advocacy is enlisting the cooperation and assistance of public and private organizations — such as trade associations — in our efforts on behalf of small business. . . . We use trade association executives to help us study the issues, and many times we work with association members to examine the real-life application of new regulations or legislation. This help is invaluable."

Added Glover, "Trade associations and other non-profit small-business assistance organizations are usually the most aggressive advocates."



Trade representatives actively participated in discussions of a number of issues, including OSHA's proposed ergonomics standard.



Robert G. Drummer (R) of the American Moving and Storage Association offers comments to OSHA Administrator Charles N. Jeffress (L) at the January roundtable.

The Roundtable: Who Was There

Air Conditioning Contractors of America; American Feed Industry Association; American Health Care Association; American Moving and Storage Association; American Trucking Association; Associated Builders & Contractors, Inc.; Automotive Parts and Service Alliance; Burns, White and Hickton; Center for Office Technology; Chemical Manufacturers Association; Collier, Shannon, Rill & Scott; Congressional Research Service; Food Distributors International; Goldberg & Associates, PLLC; Gypsum Association; Keller & Heckman; National Propane Gas Association; National Aggregates Association; National Asphalt Pavement Association; National Association of Manufacturers; National Association of Plumbing-Heating-Cooling Contractors; National Automobile Dealers Association; National Club Association; National Federation of Independent Business; National Funeral Directors Association; National Industrial Sand Association; National Lumber and Building Material Dealers Association; National Roofing Contractors Association; National Rural Electric Cooperative Association; National Utility Contractors Association; Ogletree Governmental Affairs, Inc.; Paul, Hastings, Janofsky & Walker; Printing Industries of America; Screenprinting and Graphic Imaging Association International; Small Business Legislative Council; Snack Food Association; Society for Human Resource Management; Society of American Florists; Telcordia Technologies; U.S. Chamber of Commerce; U.S. House of Representatives Small Business Committee; U.S. Senate Small Business Committee; Uniform and Textile Service Association.

News Briefs

Effects of Bank Mergers and Acquisitions Focus of SEC Forum

The continuing rapid pace of bank mergers and acquisitions and the effects of this activity on small business capital formation were topics of discussion at the 18th annual Government-Business Forum on Small Business Capital Formation. The forum, sponsored by the Securities and Exchange Commission (SEC) with active involvement from the Office of Advocacy, was held September 13-14 in Washington, D.C.

During the forum, the SBA's Chief Counsel for Advocacy Jere W. Glover pointed to the magnitude of the merger and acquisition trend in the banking industry. From 1995 to 1998 alone, the number of very small banks (less than \$100 million in assets) reporting call report data to federal bank regulators declined by more than 19 percent, or 1,336 banks. At the same time, banks with \$100 million to \$1 billion in assets increased their numbers by 182 and those with more than \$1 billion in assets declined by just 76.

What happened to the smallest banks? Many of them merged with or were acquired by larger banks. From 1980 to 1997, more than 7,000 mergers occurred, involving more than \$1 trillion in bank assets. A look at some of the top acquiring banks shows, for example, that more than 2,200 banks disappeared into the Bank of America alone over several decades — primarily the 1990s. First Union acquired another 966, Wells Fargo, almost 200 (not including banks acquired by Norwest, with which Wells Fargo recently merged), and Chase Manhattan, almost 100.

Small firms are more dependent on bank credit than on other sources, such as the angel, venture, bond, or equity markets. How are

small businesses affected by the merger and acquisition trend? Is their access to capital being curtailed as small community-based banks disappear? The final results are not yet in, but a few indicators bear watching:

- Office of Advocacy research indicates that in spite of the large increase in banks' average asset size, there has been little increase in the dollar value of loans under \$100,000. What increase there has been seems to be in credit card operations or other credit-scoring transactions.

- When out-of-state banks merge with in-state banks, small business lending appears to fall. What is unknown is whether other smaller banks or finance companies pick up the slack when merging banks cut back on small business lending.

- About half of SBA district directors who responded to a recent Office of Advocacy poll saw significant declines in the number of SBA loans made by banks when larger out-of-state bank holding companies (BHCs) took over existing BHCs. A number of the district directors pointed to centralization as a root reason for the decline in lending after a merger.

Featured topics at the forum, in addition to bank mergers and acquisitions, included Internet and cyber transactions, secondary markets for small business issues, Y2K and small business, accessing the venture capital community, small business financing in rural areas, and alternative bank products designed to increase small business lending.

For more information about SEC efforts on behalf of small business, visit the SEC's Web site at www.sec.gov/smbus1.htm.

Aluminum Die Casters and Foundries Saved from Costly EPA Regulation

Aluminum die casters and aluminum foundries will save an estimated \$25 million to \$120 million thanks to the efforts of the Office of Advocacy to alleviate the effects of regulations proposed earlier this year by the Environmental Protection Agency (EPA). Working closely with two industry trade associations, the American Foundry Society and the North American Die Casters Association, the Office of Advocacy had objected to the inclusion of the two industries in a draft final rule issued by the EPA (published in the *Federal Register* on Feb. 11, 1999 at 64 FR 6946) that was issued to reduce hazardous air pollutants from a much larger industry grouping, secondary aluminum production plants.

Secondary aluminum production plants are plants that recover or smelt aluminum from new and used scrap, such as beverage cans, foundry returns, and other aluminum scrap. The rule was issued pursuant to the Clean Air Act of 1990, which requires the EPA to list and promulgate standards for seven specific air pollutants, including dioxin and furans. Secondary aluminum production plants were previously identified by the EPA as an industry group known to be a "source category" of dioxin and furans.

According to the EPA, there are more than 400 traditional secondary aluminum production plants, of which some 86 facilities are believed by the EPA to be major sources of air toxics. In addition, the EPA estimates that there are also some 1,650 aluminum extruding, die casting, and foundry facilities that are "potential" sources of dioxin and furans.

Considering the potentially large costs that two industries would have to bear should the proposed rule be implemented, the Office of

A regulation proposed by the EPA this past February would have imposed new burdens on small aluminum foundries and aluminum die casters.

Advocacy argued that the EPA lacked sufficient evidence of dioxin and furan emissions to have included the aluminum die casting and foundry industries in the proposed rule.

Following the Office of Advocacy's comments on the rule, the EPA announced on Dec. 15 that while implementing its final rule covering emissions from secondary aluminum production plants, it would issue within the next three months proposed rules to remove the aluminum die casting and aluminum foundries industries from this standard. According to a statement issued by the EPA, it has decided "to gather further information concerning facilities [in the two industries] and then to reevaluate the air toxics requirements and economic impacts on small businesses in these industries."

"We are pleased with the EPA's action to respond affirmatively to this problem affecting two very important small business industries," said Jere W. Glover, the SBA's chief counsel for advocacy. "We look forward to a partnership between the EPA and industry to collect the appropriate data and reach an appropriate determination about the need for regulating these industrial sectors."

The EPA will initiate a formal process to collect further information from facilities in the aluminum die casting and aluminum foundries

industries to determine their potential to contribute to the emission of dioxin and furans. Within two years, the EPA expects to adopt an alternative standard applicable to these industries, and to take final action to remove both industries from the current standard that was finalized on Dec. 15.

For More Information

The EPA has posted information regarding its regulation of emissions from secondary aluminum production plants on the Web site of the its Office of Air and Radiation at www.epa.gov/ttn/oarpg.

The text of the final rule is due to be published soon in the *Federal Register*, and may be found on the Web in text and PDF formats at www.epa.gov/ttn/oarpg/ramain.html.

The Office of Advocacy's written comments on the EPA's proposed regulation are available on the Internet at www.sba.gov/advo/laws/new_regs.html.

For further information regarding this topic, contact Kevin Bromberg, assistant advocate in Advocacy's Office of Interagency Affairs, at (202) 205-6964 or via e-mail at kevin.bromberg@sba.gov.

New BITS of Data Help Researchers Track Firm Dynamics

Controversy has raged for years over the role that small firms play in job creation. Do they create jobs at all, and if they do, why doesn't the ratio of jobs in small firms to jobs in large firms change much over time?

Some of the debates about job creation and other issues have occurred because no one had access to accurate, comprehensive, detailed data that covered all businesses over an extended period. Now a data base has been developed that will revolutionize research on small business, thanks to a long-term project funded by the SBA's Office of Advocacy with the cooperation of the U.S. Bureau of the Census. The database is called the Business Information Tracking Series, or BITS file (formerly the Longitudinal Establishment and Enterprise Microdata or LEEM file).

For several years, the Office of Advocacy has funded work by the Census Bureau to develop a data base that includes nearly every non-farm business with employees in the country. The BITS file covers about 6 million separate business locations, or establishments, per year from 1989 through 1996; 1997 data will be added soon.

For each establishment a wealth of information is provided:

- Employment,
- Annual payroll,
- Location (state, county, metropolitan area if any, and place),
- Industry (by four-digit Standard Industrial Classification code, or finely differentiated, industry and place codes),
- Enterprise (business) that owns the establishment.

For establishments that are part of a multi-location enterprise, the file also includes the firm's employ-

A new data base developed by the Office of Advocacy promises to revolutionize our understanding of the dynamics of small business formation and growth.

ment, payroll, primary industry, and state. And because identification numbers allow data to be linked with other business data bases, additional information on business characteristics can be developed in the future for more detailed understandings of small businesses.

But what makes the data base revolutionary is not simply the broad scope of data that can be accessed. The BITS is a dynamic database, constructed using a longitudinal pointer file that allows the progress of individual businesses to be tracked from year to year. Here's why this dynamic view is needed. An active economy requires a massive flow of transactions, and associated with these, an ongoing process of firm entry, exit, expansion, and contraction. Traditional "static" analysis takes snapshots of the economy at different times and then compares the snapshots. But much of the activity, as well as the activity's source, is missed in these still-life shots. In contrast, dynamic analysis is like a motion picture that captures the wide-ranging movements of businesses in the economy. The action that can now be tracked, through widely respected dynamic data, is how small and large firms start up and close, expand and contract.

For example, the new data base

allows researchers to understand why, even though small firms create most of the new jobs, the percentages of jobs in small and large firms look about the same in the snapshots we've seen from year to year. The answer is simple, but the numbers behind it can now be seen. Many of the new jobs come from fast-growing small firms, which bump up into the large firm categories, while large downsizing firms sometimes become small, or disappear altogether. This once largely invisible process has become clearly visible in the BITS.

Having such a powerful new capability opens the door to more research on business dynamics than was ever possible before.

Advocacy's Office of Economic Research has begun using the BITS file for several investigations and encourages researchers to understand the data base and the terms on which it can be used.

Here are a few examples of how the BITS file already has been put to use:

- In a paper published by Advocacy in October 1998, "Mergers and Acquisitions in the United States, 1990-1994," Advocacy researcher Alicia Robb used the BITS file to measure acquisition activity and to compare growth rates among firms of different sizes and industries that either remained independent or were acquired.

- Robb and two researchers, Zoltan Acs and Catherine Armington, looked at the rate of job creation and job destruction throughout the economy by firm size, age, and industry sector in "Measures of Job Flow Dynamics

Continued on page 8

BITS Data, from page 7

in the U.S. Economy” (see *Small Business Research Summary* no. 192, available on the Web at www.sba.gov/advo/research.html).

- Jed Kolko of Harvard University has been investigating whether firms in information technology-intensive industries are more likely to locate in rural areas than non-intensive firms.

- Robb and Advocacy researcher Brian Headd are looking into closure and survival rates of businesses by race and gender, using the BITS file in conjunction with other Census data.

- Dr. Richard Boden of the University of Toledo, under contract with the Office of Advocacy, found that 72 percent of the information technology jobs came from

small firms during the 1992–1996 period.

In short, BITS can fill in many pieces of the puzzle about how the U.S. economy is growing and changing. The Office of Advocacy’s

efforts to make BITS available are no small contribution to the world of small business research.

For More Information on BITS

Extensive tabulations of BITS data are available on the Office of Advocacy’s Web site at www.sba.gov/advo/stats. The BITS is also available at Census regional data centers in Pittsburgh, Los Angeles, Boston, and Chapel Hill.

Researchers interested in using the BITS file or learning technical details should look at

www.sba.gov/advo/stats/bits_avail.html, or contact Alicia Robb (tel. (202) 205-6973; e-mail: alicia.robbsba.gov) or Bruce Phillips (tel. (202) 205-6975; e-mail: bruce.phillips@sba.gov) in the Office of Advocacy’s Office of Economic Research.

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